

## Message Text

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11

ACTION EA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 NEA-10 /093 W

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R 020736Z JUL 75

FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 6070

INFO AMEMBASSY WELLINGTON

AMCONSUL MELBOURNE

AMCONSUL SYDNEY

CINCPAC

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CINCPAC FOR POLAD

EO 11652: N/A

TAGS: PINT, AS

SUBJ: LONG-SIMMERING FOREIGN LOANS CONTROVERSY THREATENS LABOR  
GOVERNMENT

1. SUMMARY: PRIME MINISTER WHITLAM, IN STATEMENT ISSUED JULY 1,  
HAS ASKED DEPUTY PRIME MINISTER CAIRNS FOR EXPLANATION OF HIS  
CONDUCT IN CONNECTION WITH COMPLEX FOREIGN LOAN TRANSACTION.  
WHITLAM NOTES THAT LETTER SIGNED BY CAIRNS MARCH 7 IS IN  
APPARENT CONTRADICTION TO STATEMENT BY CAIRNS IN PARLIAMENT JUNE 4 ON  
ISSUE OF COMMISSIONS FOR LOANS ACTUALLY ARRANGED. IN THE EVENT, NO  
LOANS WERE MADE, AND FACTS OF WHOLE ISSUE ARE BOTH COMPLEX AND  
CONTROVERSIA. SEEMS CLEAR THAT LABOR GOVERNMENT IS UNDERGOING MOST  
SERIOUS STRAIN SINCE IT TOOK OFFICE IN DEC. 1972, AND POSSIBILITY  
OF BREAKUP OF WHITLAM GOVERNMENT CANNOT BE EXCLUDED AT THIS  
POINT. END SUMMARY.

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2. A LONG-SIMMERING FOREIGN LOANS CONTROVERSY, WHICH HAS BEEN  
THE SUBJECT OF DESULTORY PARLIAMENTARY AND MEDIA ATTENTION OVER  
PAST TWO MONTHS, BURST INTO FLAME JULY 1 WITH STATEMENT TO PRESS  
BY PRIME MINISTER WHITLAM IN WHICH, IN EFFECT, HE VIRTUALLY CALLED

FOR RESIGNATION OF DEPUTY PRIME MINISTER J. F. CAIRNS. CAIRNS HAS TOLD PRESS HE WILL REPLY TO PRIME MINISTER JULY 2, BUT HE HAD NOT DONE SO AS OF CLOSE OF BUSINESS IN CANBERRA.

3. WHITLAM'S STATEMENT NOTED THAT CAIRNS HAD SOLICITED FOREIGN LOAN AND OFFERED BROKERAGE FEE OF TWO AND ONE-HALF PERCENT IF LOAN TRANSACTION WENT THROUGH. PRESS, LED BY PRESTIGIOUS MELBOURNE AGE, HAS REPORTED THAT PROJECTED LOAN WAS IN AMOUNT OF US\$2.0 BILLION AND THAT IT WAS FROM UNIDENTIFIED ARAB SOURCES. IT IS ALSO REPORTED IN PRESS THAT CAIRNS SON, PHILLIP CAIRNS, WHO IS HIS FATHER'S ELECTORATE SECRETARY AND THEREFORE AUSTRALIAN PUBLIC SERVANT, STOOD TO GAIN MORE THAN A\$600,000 AS HIS PERSONAL COMMISSION ON TRANSACTION. WHITLAM STATEMENT OF JULY 1 NOTES THAT LETTER IN WHICH DR. CAIRNS SOLICITED LOAN WAS IN EVIDENT CONTRADICTION TO STATEMENT DR. CAIRNS MADE IN PARLIAMENT JUNE 4, DENYING THAT EITHER COMMISSION OR BROKERAGE FEE HAD BEEN OFFERED. WHITLAM RELEASED TEXT OF LETTER APPARENTLY SIGNED BY DR. CAIRNS AND DATED MARCH 7, 1975, SPECIFICALLY OFFERING TWO AND ONE-HALF PERCENT BROKERAGE FEE.

4. ABOVE BRIEF SUMMARY OF THIS EXTREMELY COMPLEX AFFAIR DOES NO MORE THAN SCRATCH SURFACE OF WHAT HAS EVIDENTLY BEEN EXTENDED SEARCH FOR ARAB OIL MONEY BY DR. CAIRNS, IN HIS CAPACITY AS TREASURER (FROM WHICH POST HE WAS RELIEVED JUNE 6), AND MINISTER FOR MINERALS AND ENERGY R.F.X. CONNOR. ON BASIS OF MATERIAL SO FAR MADE PUBLIC - PARTIALLY IN PRESS AND PARTIALLY THROUGH PARLIAMENTARY QUESTIONS BY OPPOSITION - IT APPEARS THAT DR. CAIRNS HAD NO SPECIFIC AUTHORITY TO SEEK FOREIGN LOANS, WHOSE RELEVANCE TO AUSTRALIA'S PRESENT FINANCIAL SITUATION IS IN ANY CASE DUBIOUS. MR. CONNOR WAS EVIDENTLY AUTHORIZED BY A MINUTE OF THE AUSTRALIAN EXECUTIVE COUNCIL (I.E., THE PRIME MINISTER, THE DEPUTY PRIME MINISTER, THE ATTORNEY GENERAL, THE MINISTER FOR MINERALS AND ENERGY, IN THE PRESENCE OF THE GOVERNOR GENERAL), OF DECEMBER, 1974, TO SEEK LOANS TO THE EXTENT OF US\$4.0 BILLION QTE FOR TEMPORARY PURPOSES, AMONGST OTHER THINGS TO DEAL WITH EXIGENCIES ARISING OUT OF THE CURRENT WORLD SITUATION AND THE INTERNATIONAL ENERGY CRISIS, TO STRENGTHEN AUSTRALIA'S EXTERNAL FINANCIAL POSITION, TO PROVIDE IMMEDIATE PROTECTION FOR AUSTRALIA IN REGARD LIMITED OFFICIAL USE  
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TO SUPPLIES OF MINERALS AND ENERGY AND TO DEAL WITH CURRENT AND IMMEDIATELY FORESEEABLE UNEMPLOYMENT IN AUSTRALIA. END QTE THIS EXECUTIVE COUNCIL MINUTE WAS TABLED IN THE SENATE JUNE 12. IT WAS CANCELLED EARLIER IN JUNE, AS IT PROVED IMPOSSIBLE TO FINALIZE THE DETAILS OF THE LOAN.

5. ALTHOUGH NO RPT NO LOAN TRANSACTIONS APPEAR TO HAVE RESULTED FROM ANY OF THE INQUIRIES UNDERTAKEN BY EITHER DR. CAIRNS OR MR. CONNOR, IT APPEARS CLEAR THAT A LARGE NUMBER OF INTERNATIONAL FINANCIAL TOUTS, OPERATING OUT OF SHADY ADDRESSES IN LONDON, PARIS, AMSTERDAM, AND SWITZERLAND, HAVE BEEN ENGAGED IN ONE WAY OR ANOTHER IN THE INQUIRIES. COMPLEXITY OF THE LOANS MATTER AND

SUGGESTION THAT DR. CAIRNS' SON STOOD TO GAIN SUBSTANTIALLY OUT OF TRANSACTION HAVE SET OFF CONSIDERABLE HUE AND CRY IN MEDIA AND AMONG OPPOSITION. FACT THAT DR. CAIRNS' MISTRESS, JUNIE MOROSI, HAS BEEN PROMINENTLY MENTIONED IN CORRESPONDENCE SO FAR MADE PUBLIC, ADDS FURTHER LURID DETAIL TO WHOLE MATTER. OPPOSITION LEADER FRASER CALLED FOR PUBLIC INQUIRY INTO MATTER ON JULY 1, AND AUSTRALIAN MEDIA JULY 2 STRONGLY SUPPORTED HIM IN THIS. SEVERAL NEWSPAPERS HAVE OPENLY SUGGESTED THAT THERE IS SCANDAL OF FIRST MAGNITUDE ASSOCIATED WITH WHOLE AFFAIR AND THAT LABOR GOVERNMENT CANNOT HOLD OFFICE MUCH LONGER UNDER CIRCUMSTANCES.

6. PRINCIPAL BENEFICIARY OF EVENTS OF PAST FEW DAYS HAS BEEN OPPOSITION LEADER FRASER WHO, BASKING IN WARMTH OF LANDSLIDE BY-ELECTION VICTORY IN TASMANIA JUNE 28, HAS BEEN HANDED OPPORTUNITY TO SHAKE LABOR GOVERNMENT FURTHER, POSSIBLY FORCING IT TO EARLY ELECTIONS, IN WHICH IT IS LIKELY TO LOSE OFFICE. FRASER HAS CONTINUED TO EXPRESS VIEW, SINCE BECOMING OPPOSITION LEADER MAR 21, THAT HE WOULD NOT RPT NOT SEEK TO FORCE LABOR GOVERNMENT OUT OF OFFICE BEFORE EXPIRATION OF NORMAL TERM OF OFFICE, UNLESS QTE UNFORESEEN AND REPREHENSIBLE EVENTS END QTE INTERVENE. SEVERAL NEWSPAPERS JULY 2 HAVE DIRECTLY SUGGESTED THAT PRESENT INDICATIONS OF SCANDAL ASSOCIATED WITH LOAN TRANSACTION AMOUNT TO JUST SUCH EXTRAORDINARY CIRCUMSTANCES THAT WOULD JUSTIFY FORCING EARLY ELECTIONS. WE UNDERSTAND THAT FRASER HAS CONTACTED ALL LIBERAL AND COUNTRY PARLIAMENTARIANS TRAVELLING OVERSEAS AND HAS ASKED THEM TO BE PREPARED TO RETURN TO CANBERRA ON SHORT NOTICE.

7. PROBLEM FOR OPPOSITION TO DATE IS THAT, ALTHOUGH IT HAS BEEN VERY WELL-INFORMED ABOUT MAIN DETAILS OF LOAN INQUIRIES, IT HAS LIMITED OFFICIAL USE  
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BEEN UNABLE TO PROVIDE CONVINCING PROOF. XEROX COPIES OF LETTERS WHICH OPPOSITION HAS HELD FOR PAST TWO MONTHS ARE LESS THAN CONVINCING EVIDENCE, AND LABOR GOVERNMENT, UNTIL PRIME MINISTER'S STATEMENT OF JULY 1, HAD STEADFASTLY REFUSED TO PASS JUDGMENT ON GENUINENESS OF DOCUMENTS WHICH OPPOSITION HAS MADE PUBLIC. IN EFFECT, PRIME MINISTER'S STATEMENT OF JULY 1 INDICATES THAT MOST OF THE ALLEGATIONS HAVE SUBSTANTIAL AMOUNT OF TRUTH IN THEM, ALTHOUGH DETAILS ARE EXTREMELY COMPLEX, AND MANY QUESTIONS REMAIN UNANSWERED.

8. IN POLITICAL TERMS, THERE IS EVERY INDICATION THAT LABOR GOVERNMENT IS UNDERGOING MOST SERIOUS STRAIN SINCE IT TOOK OFFICE IN DEC, 1972. POSSIBILITY OF BREAKUP OF LABOR GOVERNMENT CANNOT BE EXCLUDED AT THIS POINT. PERHAPS SUMMARIZING SERIOUSNESS OF SITUATION FOR LABOR GOVERNMENT IS STATEMENT ISSUED BY R.J. HAWKE, ALP PRESIDENT NOW VACATIONING IN YUGOSLAVIA, WHO COMMENTED TO PRESS IN ATHENS JULY 1 ON THE BASS BY-ELECTION THAT QTE THERE IS GOING TO BE A VERY, VERY SERIOUS DISCUSSION ABOUT THIS WHOLE ISSUE WHEN I RETURN IN A FORTNIGHT. END QTE HAWKE ACTUALLY IS SCHEDULED TO RETURN TO AUSTRALIA JULY 12, BY WHICH TIME THE CAIRNS

LOAN TRANSACTIONS WILL PRESUMABLY PROVIDE EVEN MORE SERIOUS  
MATTERS FOR HAWKE TO DISCUSS WITH LABOR GOVERNMENT.  
GREEN

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## Message Attributes

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**Decaption Date:** 01 JAN 1960  
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**To:** STATE INFO WELLINGTON  
MELBOURNE  
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